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# Father-Son Farm Partnerships

Russell L. Berry

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# FATHER-SON FARM PARTNERSHIPS



Agricultural Economics Department  
South Dakota Agricultural Experiment Station  
South Dakota State College  
Brookings, South Dakota  
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## FATHER-SON FARM PARTNERSHIPS

Russell L. Berry  
South Dakota State College

### DO PARENTS HELP SONS GET STARTED?

Can parents help their sons and daughters get started farming? The answer is yes. Parents can and do help their children get started farming by making gifts and loans of livestock and machinery and money. Fathers often help their children borrow money and rent land. In South Dakota 19 percent of the landlords reported that they rented some land to a son or son-in-law. This is just slightly less than the average for all the states in the Midwest. 1/

Inheritance and gifts of land are not uncommon. No less than 24 percent of Midwestern men who are farm owners indicated that they received all or part of their land by this means. Another 16 percent of the male owners bought all or part of their land from relatives. Only 60 percent of the men who owned farms claimed to have gotten them without family assistance. 2/ In a survey made in South Dakota more than half of the farmers said that they had received substantial aid from parents either through gifts of land, money or equipment or through inheritance. Less than three out of ten claimed to have achieved ownership without some sort of financial help. 3/

This seems to say that parents play a very important part in helping their sons get started farming. Because there is not enough farms for everybody there is keen competition among the sons of farmers to get started farming as partners, renters and owners. It seems reasonable to believe that, in the case of young men of equal ability, starting at the same time and in the same neighborhood, those sons who get the most help from their parents are most likely to succeed in getting started farming.

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1/ Timmons and Barlowe, Farm Ownership in the Midwest, Iowa AES Research Bul. 361, 1949, p. 924 (N.C. Regional Pub. No. 13)

2/ Ibid, p. 884

3/ Coons and Slocum, Farm Tenure in South Dakota, South Dakota mimeographed pamphlet No. 1, 1942, p. 8



On the wheat farms of North-Central and Northeastern South Dakota \$9,000 of livestock, machinery, feeds, etc. are needed at 1945 prices. The farm itself was worth over \$19,000. 4/ With such capital requirements the son who has no help from his parents or his in-laws has a difficult time getting started farming. Only those who are unusually capable, unusually frugal, or fortunate in starting early in an inflationary period have good prospects of becoming farm-owners without the aid of their parents.

#### HOW IMPORTANT ARE PARTNERSHIPS?

Where do father-son farm partnerships fit into this picture? 5/ Farm partnerships were found on 4.5 percent of all the farms in the United States according to a survey made in 1948. In the North Central States 5.9 percent of all farms are operated as partnerships. Of these 59 percent were father-son or father-son-in-law partnerships. About 27 percent were brother-sister partnerships and 3 percent were other degrees of relationship. Only 11 percent of the partners were not related to one another. 6/

#### KINDS OF PARTNERSHIPS

Farm partnerships among relatives vary greatly. It is impossible and unnecessary to describe them all. Only three of the most common kinds will be described below. These are (1) wage-bonus plans, (2) crop and livestock share plans, and (3) net income share plans.

WAGE-BONUS PLANS--Perhaps the simplest farm partnership is one where the son furnishes only his labor and some assistance in management. The simplest way for the father to compensate the son for his labor is to pay him a wage and then give him a bonus of some kind at certain periods during each year.

4/ Capital Needed to Farm in the Midwest, Minnesota AES Bul. 389, 1946, p. 12

5/ The term partnership is used loosely. It may include some livestock share leases, etc., which are not strictly legal partnerships.

6/ Inman, Current Farm Tenure Trends, Agr. Economics Research, 1:93-7, July 1949

In one community where a good job is being done in keeping the farm in the family the son is paid only enough for his spending money and clothes. Then the son is given credit for as much as one thousand dollars a year toward the purchase of the home farm when the parents retire. To protect the son in case of the parents unexpected death, notes collectable from the father's estate should be given to the son at least twice a year for his labor. Unless the wage and bonus is quite high these notes should bear interest for the son.

This plan has the merit that it includes the idea of transferring the farm to the son when the parents retire or die. Many farmers may find this one of the most practical plans especially during the early stages of the partnership. It is doubtful if this arrangement would be considered a legal partnership.

SHARING CROPS AND LIVESTOCK PLANS--Giving the son a share of the receipts from one or more crop or livestock enterprises, with or without a monthly wage, is a common practice. These plans frequently grow out of 4-H Club or F F A experience. Giving the son a share of the gross farm receipts from all sources is less frequently followed. The weakness of these plans is that the son does not learn as much about the total farm business as he would if he paid part of the expenses and then shared in the net profits. Such plans often do not include arrangements to transfer the farm to the son. But these could be added without difficulty. A conditional will which permits the son to buy out the other heirs under reasonable conditions is all that is needed. If the parents retire a direct sale of the farm to the son can be made regardless of the will.

Plans in which the son receives a share of the crops or livestock products are quite similar to the sharecropping agreements in the South. Sharecroppers are not generally considered legal tenants and it is doubtful whether they

would be considered a legal partnership in which each partner is liable for all business debts of the other parties. Because of its simplicity many farmers will undoubtedly continue to use this plan.

There are many variations of the plans discussed above that have worked reasonably well. This is especially true when the parents are not interested in driving a hard bargain. Parents who received help when they started farming are likely to help their son in the same way.

NET INCOME SHARING PLANS--There is another type of father-son partnership that is perhaps more businesslike and should give the son a better understanding of the entire farm business. This is the plan in which the net farm income is divided between the partners in the same proportions that they contribute land, labor, and operating capital to it.

This plan requires that an inventory of the farm business be made each year, and a careful account of all farm receipts and expenses be kept. It is much more likely to be considered a legal partnership in which each party will be liable for all business obligations of the other parties. Because of these complications the rest of the discussion will be devoted to the net income sharing partnership agreement.

#### BASIC REQUIREMENTS

The basic requirements for a successful father-son farm partnership are as follows:

Two jobs--The farm must be large enough to employ both the father and son. Renting additional land or increasing the amount of livestock kept will help. During the winter months the son may be able to find employment off the farm.

Two incomes--The farm must be profitable enough to support two families as soon as the son marries.

Two homes--When the son marries separate housing will be necessary. One house is almost never large enough for two families.

"Two-operation"--The agreement should provide that the son is to be a junior manager until he owns at least half of the investment in livestock and machinery and pays half of the operating costs. Even then it is well to have a definite understanding who is to have the final word concerning the management and operation of the farm.

Security of possession--It is often assumed that the son has secure possession of the farm if he is in partnership with his father or other relatives. But this is often not true. When the father dies the partnership arrangement ends. Then the son may rent from the mother. When she dies he often rents the farm from the other heirs. Later he may buy out the other heirs at a public sale where inflation or sentiment may cause him to agree to pay too much for the farm.

To prevent these difficulties parents should give serious thought to the possibilities of the conditional will which in effect sells the farm to the son upon the father's death. Or if the parents retire, then a direct sale of the farm to the son could be arranged.

Fair division of income--Not only must there be two jobs and two incomes but there must be a fair division of the income on the basis of what each person puts into the business. This requires some estimating of the contributions of father and son to the farm business.

#### CONTRIBUTIONS TO THE FARM BUSINESS

If the father-son farming plans are to be successful the net farm income must be shared in the same way that the total contributions in land, labor and operating capital are shared. This means that the father and son will have



to agree upon what is a fair value for the land, the operating capital and the labor that both put into the business.

Next the father and son will have to agree upon a fair rate of interest for the investment in land and operating capital. This is necessary because the land should last for many years and a fair rate of interest on its value is all that is used in the business in any one year. The current farm mortgage interest rate is often used because the father could sell his farm and loan the money to other farmers at that rate.

Likewise, the operating capital such as livestock, machinery, feeds, seeds, and cash reserves deserve a fair return on their value. All we need to know is how much this operating capital is worth and what is a fair return on the investment. To learn how much the operating capital is worth requires that a careful inventory be made by the father and the son. This can be done in a farm account book such as the Farm and Ranch Record Book. Such an inventory will be needed to calculate the net farm income. Since operating capital is a short term investment subject to more losses the interest rate should be considerably higher. Six percent is suggested.

Lastly, a value must be set on the labor provided by the son and the father. If present prices are used for land and operating capital then the present value of the labor should also be used. However, in years of falling prices and increasing unemployment wage rates will fall faster than land prices. On the other hand, wage rates rise more rapidly than land prices during an inflationary period. This must be kept in mind if current land and labor prices are to be used.

There are no easy solutions to these problems. The main thing is that both the father and son think the situation over very carefully and then arrive

at an agreement that seems satisfactory to both. Your county agricultural agent or your local vocational agricultural teacher will be glad to help you.

The following example shows how such an arrangement can be worked out. Study the example. Then you are ready to start filling out the Father-Son Partnership Agreement that is attached as rapidly as you reach an agreement on the value of the farm land, operating capital, and the labor that is to be used in the farm business.

		<u>Contributions for Year</u>			
	Amount	Rate	Father	Son	Total
<u>Father's contribution</u>					
Land 300 acres @ \$100 =	\$30,000	4%	\$1200	***	1200
Operating capital .....	5,000	6%	300	***	300
Labor .....	12 mo.	\$150	1800	***	1800
<u>Son's contribution</u>					
Land <u>0</u> acres @ <u>0</u> =	----	4%	***	---	---
Operating capital .....	2,000	6%	***	120	120
Labor .....	12 mo.	\$150	***	1800	1800
<u>Total value of contributions</u>			<u>\$3300</u>	<u>1920</u>	<u>5220</u>
<u>Percent contributed by each party</u>			60	40	100

The percent contributed by the father can be found by dividing his contribution of \$3300 by the total contribution of \$5220. This shows that the father is contributing 59.78 percent, or roughly 60 percent of the total contribution. The son then is furnishing the rest of the contribution or 40 percent.

The figures used in the example above are not necessarily the figures you should use in your situation. Wage rates should vary according to the age and ability of the son and the father. The rates may be different. The father or the son or both may want to take a month's vacation sometime during the year. This is one of the advantages of a two man farm. Again during the winter months the son may be able to find a temporary job off the farm. When the farm

is small, such part-time employment off the farm is one way of increasing the income for the father as well as the son.

The main thing to remember is that the value of the contributions should be carefully worked out. Then all the farm expenses should be paid out of the undivided receipts and the net farm income divided in the same proportions as the contributions are made. In the example above the father would get 60 percent, and the son 40 percent of the net farm income.

If the net farm income were \$5,000 the father would receive \$3,000 and the son \$2,000.

#### SHARING IN SALE OR PURCHASE OF BREEDING STOCK AND MACHINERY

If operating capital such as breeding animals or machinery are sold, the income from such a sale must be divided on the same basis as it was owned. In this case the father furnished \$5,000 and the son \$2,000 of the undivided operating capital. In other words the son owned only \$2,000 of the total \$7,000 worth of capital used on the farm. By dividing \$7,000 by \$2,000 we learn that the son's contribution of the operating capital is only 28.5 percent. Therefore the son should receive only 28.5 percent of the sale price of any operating capital sold. If new breeding stock or machinery is bought the son could pay only 28 percent of the cost, 40 percent of the cost or some other figure. In any case where the son pays more or less than 28 percent of the cost, the contributions should be calculated again. Even when the son pays only 28 percent, the contributions should be calculated again if considerable money is spent for additional capital.

#### PERMANENT IMPROVEMENTS

When the parents furnish all the land, all the returns from the sale of timber, gravel, building, etc., should go to the parents. Likewise the cost

of major repairs on buildings such as a new roof should be paid by the parents if the land on which such improvements are made belongs to them. If such improvements increase the value of the farm then the contributions should be calculated again and a higher value set on the farm.

#### PAYING EXPENSES AND DIVIDING INCOME

Perhaps the simplest way to handle the payment of expenses and the sharing of income is to let the father receive all income and pay all expenses. The father should also pay the son a monthly wage sufficient to meet his living expenses. Until the son is accepted as an equal in the management of the business and is furnishing 50 percent of the total contribution of land, operating capital and labor, this wage should be guaranteed to the son regardless as to whether the business is profitable or not. The son should not run the risk of little or no income unless he has an equal voice in the management of the farm.

The son or perhaps the mother might be given the job of keeping a record of all expenses and income. At the end of the year the expenses (except for the wage paid to the son) could be subtracted from total receipts and the remainder divided between the father and the son according to their contributions to the farm business.

For the example above, if the net farm income was \$5,000 the father's share would be \$3,000 and the son's share would be \$2,000 or 40 percent of \$5,000 total.

If the son had been paid \$1,800 in advance by the father then he would be entitled to \$200 more at the end of the year.

If the net income was only \$4,000 the son's share would be only \$1,600. If the wage was guaranteed, there would be no rebate even though the son had



received \$200 more than his 40 percent of the net farm income.

Another plan, namely the joint bank account, has been used with success. When the joint bank account is used the father also draws advance payments from the joint account and all expenses are paid from it. Small items are frequently paid in cash out of each partner's funds and then later a check is written to cover a number of these cash expense items.

A third plan would be for the partners to divide the receipts and expenses on a weekly basis. This plan would require that each partner keep a record of all receipts received and expenses paid during the week and then reaching a settlement at the end of week with the partner who likewise may have received some receipts and paid some expenses. This plan eliminates the need for elaborate bookkeeping and joint accounts but has other disadvantages. Keeping track of expenses and income on a weekly basis can be difficult at times. Many people are inclined to forget easily and this may lead to doubt and suspicion. The two plans previously mentioned are probably more satisfactory.

#### CONCLUSIONS

Parents can and do help their sons get started farming by gifts, loans, and various kinds of assistance. Partnerships are one way that some parents can help their son get started but it is by no means the only one. Unless the parents can afford to hire the son on a yearly basis and pay him a good wage including a house or an apartment for his family then the farm is not large enough to support two families. Unless the business can be enlarged, a partnership should not be attempted. Ability to get along, the plans for the transfer of the farm to the son in case of the father's death are other important requirements of a successful farm partnership.

Finally, a fair and reasonable division of the net farm income is necessary. This should be on the basis of what each contributes to the farm business.

The father should have the final word on management as long as the father furnishes most of the contributions. When this is the case the son should receive a guaranteed wage.

An accurate farm record of receipts and expenses must be kept in most cases if a fair settlement is to be reached at the end of the year. A joint checking account for the farm business is desirable in many cases. Farmers who do not wish to keep such records or accounts may find the wage-bonus plan, or the crop or livestock share plan suited to their needs.

FATHER-SON FARM BUSINESS AGREEMENT  
FORM A

PARTIES AND TERM

This agreement is made this \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_  
between \_\_\_\_\_, hereinafter referred to as the father,  
and \_\_\_\_\_, hereinafter referred to as the son, to begin  
on \_\_\_\_\_, 19\_\_\_\_ and to end on \_\_\_\_\_ 19\_\_\_\_.

PURPOSE

The purpose of this agreement is to make possible the joint operation of  
a farm business on land owned or rented by the father and the son, or both, as  
indicated below. The location of the land is \_\_\_\_\_ Twp.  
\_\_\_\_\_ County, South Dakota

CONTRIBUTION TO BUSINESS

It is mutually agreed that the following contributions shall be made: (Strike  
out all blanks which do not apply. See example on attached sheets)

		<u>Contributions for year</u>			
	Amount	Rate	Father	Son	Total
<u>Father's contributions</u>					
Land, _____ acres at \$_____	=\$_____	4%	_____	***	_____
Operating capital, Mach. and L.S.= _____		6%	_____	***	_____
Labor _____ mo. at \$_____ per mo. = _____		100%	_____	***	_____
<u>Son's contributions</u>					
Land, _____ acres at \$_____	=\$_____	4%	***	_____	_____
Operating capital Mach. and L.S.= _____		6%	***	_____	_____
Labor _____ Mo. at \$_____ per mo.= _____		100%	***	_____	_____
<u>Total value of contributions</u>			_____	_____	_____
<u>Percent contributed by each party</u>			_____	_____	_____

#### FARM EXPENSES

It is agreed that all cash farm expenses shall be paid by the father who shall receive all the farm receipts; that depreciation on all buildings, fences and other improvements shall not be more than \_\_\_\_\_ percent of their value per year.

#### FARM ACCOUNTS

It is agreed that the son, with the assistance and cooperation of the father, shall keep the following farm account records in an appropriate book. (The South Dakota Farm Account Book is suggested):

- a) An annual inventory of all buildings, fences, livestock, machinery, feeds, seeds, fertilizer, and all other kinds of working capital used on the farm.
- b) A records of all farm expenses incurred during each year.
- c) A record of gross farm receipts from all sources.

#### NET FARM INCOME

It is agreed that the net farm income shall be calculated at the end of each year:

- a) By subtracting from the total farm receipts total farm expenses except advance payments made to the son, principal payments on the farm real estate, and major farm improvements costing more than \_\_\_\_\_ dollars.
- b) By adding to, or subtracting from the results the net change in inventory during the past year.

#### MANAGEMENT

It is agreed that the father will be regarded as the manager of the farm business and the son be regarded as the assistant manager. In case of disagreement concerning the farm business the manager shall make the final decision and the assistant manager agrees to abide by the manager's decision except when the final inventory of this agreement is being made. Disagreement concerning the final inventory shall be settled by an appraisal by a third party or parties



agreeable to both father and son.

#### DIVISION OF NET FARM INCOME

It is agree the net farm income shall be divided \_\_\_\_\_percent to the father and \_\_\_\_\_percent to the son, this division of the net farm income being the same as the division of the total contributions made above.

#### ADVANCE PAYMENTS

It is agreed that the son shall receive advance payments against his share of the net farm income of \_\_\_\_\_dollars annually to be paid in twelve monthly installments as follows: \_\_\_\_\_

---

#### NO REFUNDS

It is agreed that the son shall not be required to make any refunds in case the advance payments exceed the son's share of the net farm income.

#### HOUSING. ETC. (Strike out clauses or words which do not apply)

The father agrees to provide the son with:

- a) Room, board, and laundry
- b) Separate living quarters for himself and his family
- c) Garden space of not more than one acre
- d) Not more than \_\_\_\_\_pounds of dressed pork or beef that is raised on the farm
- e) Dairy products, poultry and eggs produced on the farm needed to supply his table

In witness whereof, the parties have signed this agreement on the date first above written.

\_\_\_\_\_  
Father

\_\_\_\_\_  
Son

Witnesses to both signatures:

\_\_\_\_\_

\_\_\_\_\_